Yukon
Economic Outlook
2004

Whitehorse, Yukon
April 2004

Yukon
Economic Development

© 2004 Department of Economic Development
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ISSN 1209-0034

Also available at:
http://economics.gov.yk.ca/

104-06058/

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1. Outlook for Global, U.S. and Canadian Economies

Global Economy
Several events in the first half of 2003 such as SARS, the war in Iraq and the struggling US economy held back economic expansion in several countries. However a surge in US economic activity in the second half of the year contributed to renewed growth. While the resurgence in US demand will provide a stimulus, its impact could be tempered by the recent weakness in the US dollar.

With stronger US growth the outlook for the **Euro-zone** is brighter as exports are expected to increase. Domestic demand should also see some resurgence. Growth of 2% is forecast for 2004 following an estimated 0.6% growth in 2003.

UK economic growth in 2003 was limited to 1% in the first quarter of 2003 however rebounded to 2.4% in the second quarter. Public spending has been a key support of UK growth but at the expense of deteriorating public finances. With an election expected within the next year and a half changes in fiscal policy are unlikely, setting the stage for a period of steady, above-trend growth which is projected at 3% in 2004.

The **Japanese** economy has shown unexpected strength in the light of weak global demand. Japanese growth rose to over 2% in 2003 after virtually no growth in the previous 2 years. The increase in international activity should contribute to improved local labour market health which in turn should lead to stronger domestic consumer spending. The appreciation of the Yen should hold export growth in check in 2004 but not negate it entirely. The Japanese economy is forecast to increase by 1.5% this year.

Although tempered by factors such as SARS and higher oil prices the **Emerging Asian** economies should still remain the world's top performer with growth in the 6% area for 2003.

China's spectacular growth rate over the last year should be up an estimated 8.5% following growth of 8.0% in 2002. China's role as a regional production hub is providing support for the region, however growth in many nations will still see a downturn. **Korea's** growth will be limited to half its previous growth at under 3% amongst security concerns around North Korea and policy efforts to constrain excessive credit growth while SARS impacted nations such as Singapore and Taiwan will also see more modest but significant declines.

A slower growth rate in China in 2004 should be more than offset by stronger growth elsewhere. Excluding China, **East Asian** growth is expected to rise to 5%.

Latin America is showing a modest recovery in 2003 after a brutal year in 2002. Economic and fiscal reforms are needed to continue growth into the next year. **Argentina** may show growth of 6% in 2003 off a very low base but GDP growth may decline in 2004 as Argentina faces continued challenges in fiscal consolidation, restoring the banking sector and restructuring the public debt. **Brazil** is undergoing economic reform which should raise growth to 3% in 2004. **Mexico's** dependence on US economic activity held growth back to 1.5% in 2003 but should strengthen through

2004 in step with the US economy. Overall Latin American growth is expected to increase by 2.4% in 2004.

United States Economy

The US economy surged ahead in the third quarter of 2003 as a strong monetary and fiscal stimulus pushed economic growth to 8.2% - the strongest growth in 19 years. Fourth quarter growth also remained impressive at 4.1%. The robust economic growth in second half of 2003 has also been fueled by unexpectedly strong US business investment. Overall the US GDP grew by 3.1% in 2003.

Mid-year tax reductions boosted personal consumption expenditures in the US by 6.4% and record home sales supported residential construction as it surged by 22.8%. A weaker US dollar allowed US exports to increase by 19.3% while imports remained barely changed. Employment in the US labour market improved every month since August albeit at an uninspiring pace. The US unemployment rate rose slightly overall in 2003, averaging 6.0% - up from 5.8% in 2002.

Continued consumer spending in early 2004 supported by the Bush tax package, a healthier business sector and growth in US exports as a consequence of the lower US dollar should all contribute to the US **economy expanding by a forecast 4.7% in 2004.**

The pace of US job creation is expected to remain slow but will increase gradually as employers boost production to meet growing internal and external demand. Higher productivity provided by greater investment in machinery and equipment will temper job growth somewhat however, US unemployment is still expected to drop to 5.5% in 2004.

Driven by increased federal spending, service sector growth and expected recovery in tourism, the **Alaska** economy is forecast to show continued steady growth in 2004. Employment is forecast to grow by 1.7% (or about 6,000 jobs) in 2004 while the State's GDP is expected to increase to $33 billion US.

A large component of employment growth in Alaska this year will be attributed to an increased military presence with the deployment of the new Stryker brigade at Fort Wainwright.

Hotels, restaurants and drinking establishments are also expected to show an increase this year. With the expected upturn in tourism, specifically cruise ship traffic due to the weaker US dollar making overseas travel less appealing for US residents, this sector is expected to see growth of around 4% in 2004.

Construction in Alaska is expected to only show very modest growth this year. Many projects such as the Fort Greely missile facility and work at the Anchorage airport are nearing completion. Interest rates are expected to nudge up later this year which should cool the vigorous residential housing construction activity of late.

Retail trade in Alaska should also experience growth in the neighbourhood of 3.5% in 2004 spurred by the continued arrival of national retail chains in to the State. An increase in the salmon harvest of 11%, particularly in higher-value sockeye salmon, forecast by the Alaska Department of Fish and Game should benefit commercial fishers in the State.

Canadian Economy

The Canadian economy experienced a variety of shocks in 2003: SARS, mad cow disease, forest fires in BC, the Ontario power outage in addition to the slowdown in the US economy and uncertainty caused by the war in Iraq. The most important shock in 2003 has without doubt been the dramatic rise in the loonie. These all contributed to only moderate growth in last year. The Canadian economy grew by only 1.7% in 2003 – one half of its growth performance from the previous year.

Low interest rates and employment growth are expected to keep consumer spending strong and should keep residential investment strong albeit not at the exceptionally high levels of recent years. Low financing costs should also continue to stimulate investment in the business sector.

The rise of the Canadian dollar will continue to put a constraint on growth in the first half of 2004 although it will not take the wind out of the sails totally. Exports will continue to be negatively affected by the higher dollar and manufacturing will bear the brunt of that pressure but a strong service sector and sustained domestic spending will push the economy along. **The Canadian economy is expected to expand by around 3% in 2004.**

Moderate gains in crude oil production and investment associated with major mining products should support economic growth of around 2.5% in 2004 in **Newfoundland and Labrador**. Energy sector investment and higher natural gas prices coupled with higher US demand for provincial products should translate into growth of 2.8% in **Nova Scotia** in 2004. The **Prince Edward Island** economy should benefit from a more robust North American economy in 2004 supporting its tourism and manufacturing industries. Growth in the province is forecast at 2.9% in 2004. **New Brunswick** is expected to perform similarly to PEI and Nova Scotia in 2004 with energy sector investment and improved US demand. New Brunswick growth is also forecast at 2.9% this year.

Lower interest rates should spur growth in the **Quebec** economy through increased capital spending leading to employment gains and sustained growth in consumer spending. Renewed US demand should also contribute to economic growth of 3.2% in 2004. This renewed US demand will also provide a boost to the **Ontario** economy which is highly dependant on manufacturing and exports. Although lower public spending and the strength of the Canadian dollar will provide some downward pressure, the economy is still expected to expand by 3.4% in 2004.

Manitoba is expected to grow by 3.2% in 2004 supported by healthier conditions in agriculture and manufacturing. Housing construction will probably ease from the current

boom but will still be substantial enough to provide added support to the provincial economy. In addition to gains in the food processing and machinery manufacturing, improvements in agriculture and energy and general North American economic recovery should allow the **Saskatchewan** economy to expand by 2.8% this year.

Business investment stimulated by the increase in natural gas prices will be a substantial contributing factor in returning economy growth in **Alberta** to 4.0% in 2004. The expected removal of barriers in regards to Canadian beef entering the US markets should lead to an improvement in the livestock sector and demand for Alberta's electronic and machinery manufacturing should show improvement with the strengthening North American economy.

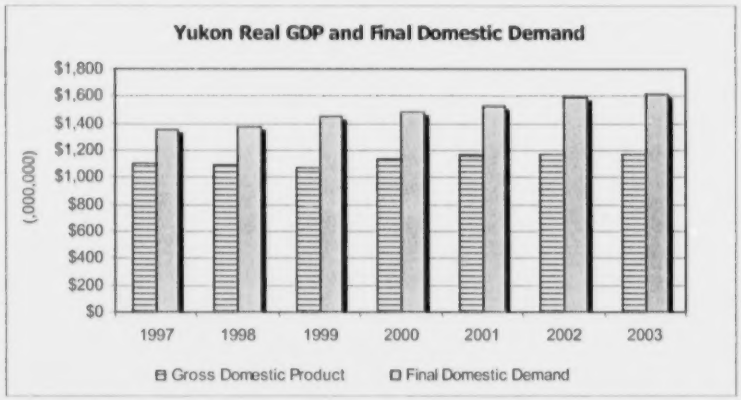
The **British Columbia** economy has historically been dependent on natural resource exports and has suffered as of late. Although government spending will be curtailed, natural gas exports will continue to provide growth and BC's tourism industry is expected to recover to more normal levels. Overall improving conditions in 2004 should translate into 2.7% growth this year.

The increasing gold price, which is expected to stay above $400 US/oz, has led to at least six companies exploring significant gold deposits in the **Northwest Territories** and **Nunavut**. Within the next three years, three new mines are scheduled to open. In addition, the prospects of three new diamond mines and further oil and gas development add fuel to the roaring Northwest Territories economy. The building of the Mackenzie Valley Pipeline would also contribute substantially to the region in the future.

2. Outlook for the Yukon Economy

Economic Output

The Yukon Economy experienced mixed highs and lows in 2003. Tourism saw a decline in border crossings by about 3% while mineral exploration expenditures in the territory almost doubled from the previous year. Natural gas production exhibited a marked decline at the Kotaneelee field while the construction industry was kept busy with strong residential building activity and work on large commercial projects.



Personal expenditures on goods and services increased by 3.1% in 2003. Specifically, expenditures on durable goods declined while purchases of non-durables and services increased over their levels in 2002.

Strong residential construction activity and renewed business investment in inventories had a positive effect on the economy in 2003. However, a decline in Yukon exports coupled with an increase in imports held back the economy last year. Much of the decline in exports is attributable to sharp decreases in the value of natural gas and gold shipped from the Yukon.

Overall Yukon's real GDP increased by 0.2% last year - the same as the growth rate in 2002.

Unlike Yukon's Real GDP which has only grown by 5% since 1997, Yukon's Final Domestic Demand (the sum of: private consumption + government consumption + gross fixed investment) has grown by 20%. Changes in the Yukon's GDP seem to be driven more by the balance of what we import and export than actual economic consumption within the territory. Traditional resources sector exports which have been in decline in recent years have been partially replaced by increased tourism exports (tourism is considered an export under the national accounts). Personal expenditures on consumer goods and services have increased by 20% since 1997. Demand caused by these increased personal expenditures was met by a 9% increase imports into the territory. The majority of this increase has been seen in international imports.

Increased construction activity and an increase in natural resource activity will probably be the key drivers of economic growth in 2004. While personal expenditures will exhibit some growth with the spin-offs of increased employment opportunities, expenditures by governments on various capital projects should boost Yukon's Real GDP by a forecast 4% in 2004.

Population

Although the average annual population of the Yukon declined again in 2003 there are some signs of an end to the exodus experienced since the closure of Faro in 1998.

The annual average population of the Yukon in 2003 as reported by the Yukon Bureau of Statistics was 29,967. This represents a slight decrease from the 30,063 average in 2002 however the population level recorded in December 2003 was 30,255 – up from 29,960 observed in December of the previous year.

In December 2003 many Yukon communities recorded an increase in their population over the previous year. The largest increase was seen in Whitehorse where the population jumped by 294 persons. The population of Marsh Lake also showed an increase of 57 persons over the same time period as more people have changed their residency to the community which started being counted separately from Whitehorse by the Yukon Bureau of Statistics in January 2002. In contrast the populations of Dawson and Faro showed the largest declines in the last year as 30 individuals left each community.

When looking at migration statistics, Statistics Canada reports a reversal of the net-outmigration that has been occurring for recent years. Net migration into the Yukon between July 1, 2002 and June 30, 2003 was positive. Six hundred and eighty- five more people migrated to the Yukon in 2003 than left. This positive in-migration was seen across almost all age groups but was most prevalent in young working-age people. Nearly 350 more persons between the ages of 20 and 34 arrived in the territory than left for other jurisdictions. The only age group that showed a net-outmigration was those between the ages of 44-49 which showed slightly more people leaving the territory than entering.

Community	Dec-02	Dec-03	Change
Whitehorse	22131	22425	294
Marsh Lake	222	279	57
Carcross	394	414	20
Teslin	401	417	16
Tagish	180	186	6
Ross River	338	344	6
Old Crow	259	265	6
Pelly Crossing	281	285	4
Burwash Landing	71	75	4
Destruction Bay	54	57	3
Beaver Creek	109	109	0
Watson Lake	1555	1551	-4
Haines Junction	805	790	-15
Carmacks	424	409	-15
Mayo	418	395	-23
Dawson City	1818	1788	-30
Faro	375	345	-30

Although the closure of the CanTung Mine will probably have a negative impact on population in the territory, the large government workforce, continued tourist activity and strong upcoming construction seasons over the next few years should retain and attract workers and their families. **Overall in 2004, the Yukon's population is not expected to decline from its current level of around 30,250 and may even show some growth.**

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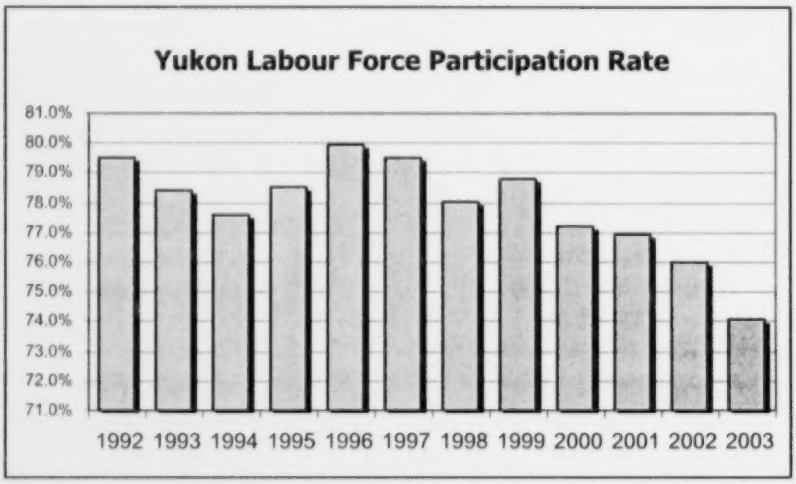
Labour Force and Employment

The average size of the Yukon labour force declined in 2003 to 14,508 from an average of 14,889 the previous year. Although the decrease in the labour force is tied to the drop in population in the territory, the participation rate[1] has been in decline since 1996. The average participation rate in 2003 was 74.1%, down from 76.0% last year and down from the high of 80.0% in 1996.

The average unemployment rate also edged up in 2003 to 10.2% from 9.5% the year earlier. This change was caused by both a decrease in the average number employed and an increase in the average number unemployed. The average number of employed dropped to 13,017 in 2003 from 13,467 in the previous year. The average number of unemployed increased to 1,500 from 1,417 in 2002.



According to the Yukon Labour Force Survey average full-time employment remained unchanged in 2003 at 11,000 however the average number of part-time employees decreased by 400 to 2,000. Private sector employees and the self-employed appear to have remained unchanged last year but the average number of public employees decreased by about 6%. Employment in both the goods producing sector and the service sector showed a decline in 2003 dropping by 400 and 100 respectively.

The drop in employment in the last year seems to have been focused on the younger, 15 to 24 year old workers. While average employment for those aged 25 and over remained virtually unchanged in 2003, the average number of younger workers with jobs decreased by 300.

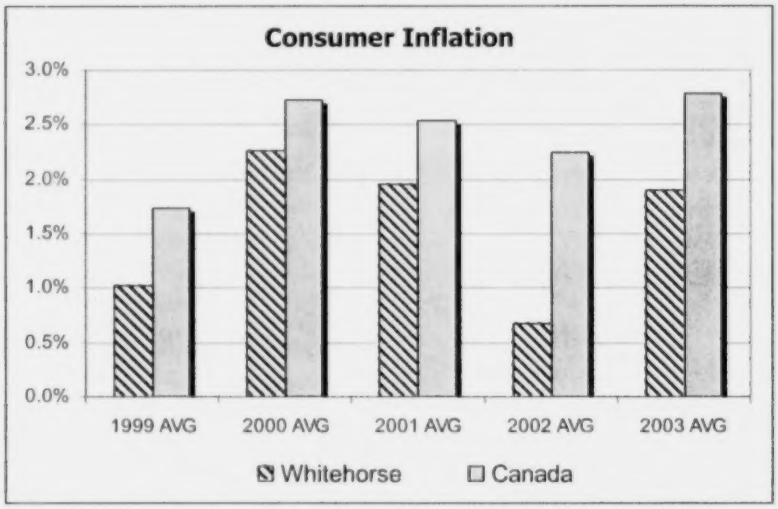
Jobs in the construction industry and retail trade should support growth in employment in 2004. The size of the Yukon labour force should remain very similar to 2003 at approximately 14,500 however employment figures should be stronger. **It is expected that on average the Yukon will show an unemployment rate of 7.5% in 2004 with 13,400 employed and 1,100 persons seeking employment.**

[1] The percentage of the working age population who are either employed or actively seeking employment

Consumer Prices

Consumer prices in Whitehorse[2] increased by 1.9% in 2003 following a modest increase of 0.7% in 2002. Price increases in the territorial capital occurred mainly in the first quarter of the year. Early year increases in the prices of energy, alcohol and tobacco and transportation drove prices up by an average of 4.4% in the first quarter. By the end of the year the situation had reversed when Whitehorse experienced consumer price drops of an average of -0.5% in the last quarter of 2003.

Overall the components driving the increase of the Whitehorse consumer price index in 2003 were the price of city bus transportation, which rose by 18.2%, auto insurance rates which jumped by 16.9%, the price of tobacco which increased by 15.1% and the price of fuel oil which increased by 12.0%.



Increased competition and the expansion of Whitehorse's grocery marketplace helped to keep inflation in food prices to a minimum last year. Overall, food bought from stores only increased by 0.3% in 2003. Although dairy and bakery product prices increased, the prices of most meats as well as fruits and vegetables decreased last year. For those who preferred to purchase their food from Whitehorse restaurants, they saw a 2.1% increase in their food bills in 2003.

The price of shelter in Whitehorse demonstrated an overall increase of 1.5% in 2003 driven mostly by the increase in the price of fuel oil. Household operations and furnishings also showed a modest increase last year at 0.7%.

The increase in consumer prices in Whitehorse showed the same trend in 2003 as it did nationally but at a lower rate. Across Canada consumer prices increased by 2.8% in 2003 following a smaller jump of 2.2% in 2002.

Consumer prices are expected to be subdued through 2004 as the prices of imported goods and services are tempered by the higher Canadian dollar and increased retail competition moderates price increases. **Consumer prices in Whitehorse are expected to increase by an average of 1.0% in 2004.**

[2] The Consumer Price Index is available in the Yukon for Whitehorse only

3. Sectoral Outlook

Mining

The price of gold rose in 2003 ending the year at over $400 US per ounce up from the lows of under $300 US per ounce seen in recent years. Silver has kept pace with gold in price recovery with prices rebounding to over $7 US per ounce in recent months. This has generated renewed interest in the precious metal sector. Both gold and silver prices are expected to show continued strength in 2004. Base metals have also shown strength with increased demand around the world. Average lead and zinc prices have shown increases in the area of 50% and 20% respectively between December 2002 and December 2003. The price of copper has also topped $1.30 US per lb recently with the December 2002 to December 2003 average price increasing by about 40%. The average prices of these base metals are forecast to be even higher in 2004.

The number of projects involving diamond drilling did not increase in 2003, however, total drilling footage increased by 50%. Quartz claims in good standing were up about 2% over 2002 with 44,022 claims. In contrast, placer claims in good standing were down about 2% over 2002 with 16,183 claims.

The Yukon government continued to support the mining exploration industry by funding the Yukon Mining Incentive Program. In 2003, $987,000 was given to 61 successful applicants. The Yukon Mineral Exploration Tax Credit program, which provides a 25% tax refund on eligible exploration expenditures, has been extended for another 3 years to March 31, 2007.

Nevada Pacific Gold decided not to pursue assets of the Elsa mine property however other parties have expressed interest. The CanTung mine applied for bankruptcy protection in December of 2003 and has ceased operations indefinitely.

The search for emeralds and the rise in the price of gold has fueled an increase in mineral exploration expenditures in Yukon. Exploration expenditures for 2003 are estimated at about $13 million, up from the $6.9 million spent in 2002. The largest exploration program in Yukon was the Regal Ridge project of True North Gems in which $2.1 million was spent to evaluate their emerald property. Several new emerald properties were discovered which will be evaluated in the 2004 season.

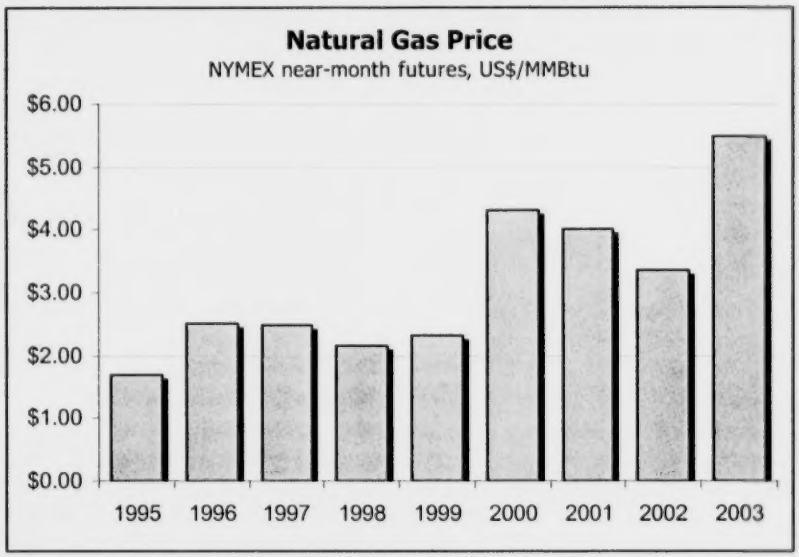
There are strong indications that exploration spending should increase further in 2004. The continued strengthening of gold, silver and base metal prices, recent mineral discoveries and positive results from current exploration programs all indicate that Yukon is poised for a return to healthier spending exploration levels. True North Gems has indicated that they will continue to conduct exploration in 2004 for both gems and base metals based on their findings during 2003.

Yukon Placer gold production, in 2003 totaled 50,887 crude ounces, down 24% since 2002. The total dollar value of Yukon placer gold produced in 2003 was about $20.6 million, down from $25.8 million in 2002. With no hard-rock mines currently operating in the territory, placer gold production makes up the majority of mineral production. The

value of the Canadian dollar, the world price for gold and the new placer régime will be the main factors in how well the industry performs in 2004.

Oil and Gas

The National Energy Board is forecasting that Canadian natural gas production in 2004 and 2005 will be flat over 2003, as more wells will have to be drilled just to maintain past years' production levels. Coupled with rising continental demand and this winter's below normal temperatures, the declining supply of gas from conventional sources is driving up prices and increasing the industry's interest in northern frontier and offshore plays, as well as non-conventional sources, such as natural gas from coal. This makes the building of the Mackenzie Valley Pipeline and the Alaska Highway Gas Pipeline increasingly likely. In early 2004 three separate groups submitted applications to the State of Alaska under the Alaska Stranded Gas Act to negotiate fiscal terms regarding gas production and the shipment of North Slope natural gas to market. Although construction is not imminent, it does show a continued interest in bringing natural gas from Alaska to the lower 48 via the Yukon.



Production in the Kotaneelee Gas Field is declining rapidly and this decline is expected to accelerate even further in the coming months. To offset this, Devon Energy is planning to drill one new well and work over an existing well in Kotaneelee late this year. In North Yukon, Devon is expected to conduct exploratory drilling as their existing dispositions are nearing the end of their tenure. Devon is committed to complete exploratory drilling by 2005, to extend the tenure of these dispositions.

Yukon government is currently conducting its fourth rights disposition in North Yukon. As a result of concluding the Bilateral Agreement with the Kaska, the Yukon government may conduct an oil and gas rights disposition in Southeast Yukon.

In 2003, there were five exploration projects licensed in Yukon: two in the North and three in the Southeast and more exploration work is anticipated in 2004.

Renewable Resources

The value of agricultural production sold in the Yukon in 2003 is estimated to have held steady at around $4.2 million. Forage production hit an all-time high in 2003 while game farm receipts were down significantly. Agricultural output is forecast to increase slightly in 2004 on the strength of expected higher potato, vegetable, bedding plant, honey and livestock production.

Production of Yukon forest products remained low in 2003, due to continued low lumber prices and a soft market for timber. Low production is resulting from decreased volumes of timber harvesting while value-added production has remained fairly constant. Nationally, the wood products industry remains depressed due to the on-going failure to resolve the softwood lumber dispute with the United States.

There is potential for an increase in Yukon forest production in 2004. The Yukon government plans to issue timber permits for up to 120,000 cubic meters of harvesting in the southeast Yukon in addition to small volume, point source permits throughout the territory. As well, prices for softwoods are forecast to increase by around 15% in 2004. Sustained growth in the forest sector will be supported by new legislation (expected in 2005), larger, long-term tenures, continued development of innovative products and practises, and the development of modern, efficient milling and processing facilities.

The estimated value of Yukon furs sold at auctions remained stable at around $200,000 in 2002/2003, similar to last season. The fur industry is still struggling to climb out of the gloomy decade experienced in the 1990's. Prices for some furs have improved but the Yukon fur industry has not recovered due to declining interest in trapping as a livelihood. However, should prices continue to improve, the numbers of active trappers and ultimately Yukon production will likely increase.

Construction

The value of building construction rose sharply in 2003, led by strong growth in commercial, institutional and residential construction activity.

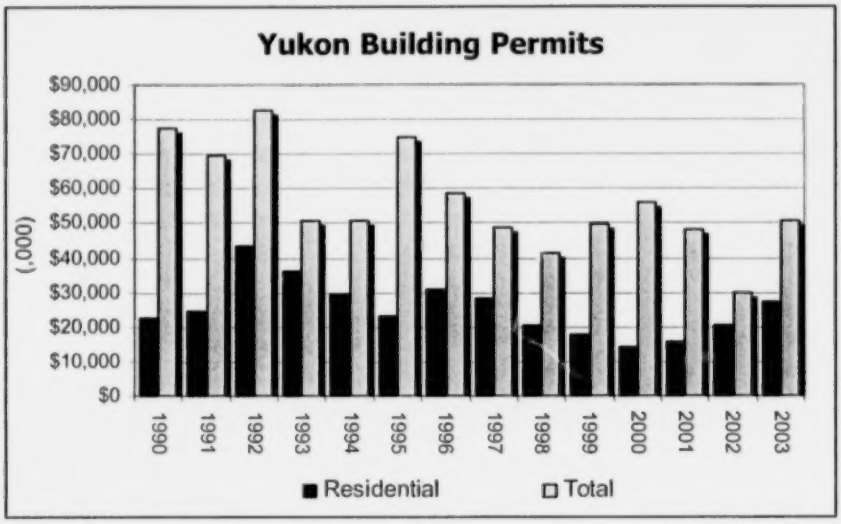
The total value of permitted building construction in 2003 increased by 71% to $50.8 million. Commercial activity led the increase, rising nearly 200% to $14.5 million in permitted activity. New retail construction in Whitehorse was the major driver of the increase. Government projects such as the Eliza Van Bibber school in Pelly Crossing and the RCMP building in Dawson City pushed up the value of permitted institutional construction by 132% to $8.8 million.

The Yukon's building construction industry continued its run of strong performance in 2003. Following the national trend, lower interest rates appear to be fuelling continued strong demand for new residential units. The number of residential permits issued was up 34% to 1,131 and the value of residential construction rose 32% to $27 million. Incentive programs offered through the Yukon Housing Corporation are helping Yukoners invest in housing to meet their needs which is also supporting growth in the residential construction and repair sector.

The vacancy rate for rental accommodations in Whitehorse continued to drop in 2003, from 7.5% in December of 2002 to 5.6% in December 2003. Mortgage rates are

widely expected to increase in late 2004. Should this translate into a large rise in mortgage rates the housing market, both nationally and within the territory, would likely lose momentum. If the higher rate scenario plays out later in 2004, residential construction is expected level off or decline slightly by year's end.

There are signs that the 2004 construction season will be a very busy one, driven largely by institutional projects. Major City of Whitehorse projects include the new Whitehorse Multiplex, replacement of the Two-Mile Hill fire hall, continued development of Shipyards Park and development of the Whitehorse waterfront in the Motorways area.



The Yukon Government also has a full-slate of projects including a new community hall in Ross River, sewage system upgrades in Teslin, development of a sewage disposal facility in Carmacks, possible construction of new country residential lots, initial work on replacing the Tantulus School in Carmacks, renovations to the Whitehorse Correctional Centre as interim measures to its replacement, and renovations to the Thompson Centre.

The Shakwak project will again account for the majority of highway construction in 2004, with approximately $17.0 million in spending planned. Work on rehabilitating the Teslin River bridge will continue and $11.5 million in additional upgrades to the Alaska Highway will be undertaken.

Commercial activity could see an increase in 2004, with the Four Mountains Resort project potentially proceeding to development in the Carcross area and a new multi-screen theatre complex planned for Whitehorse.

Tourism

In the first half of 2003, a sequence of global and Canadian phenomena was termed the "perfect storm" and severely impacted tourism in Canada. Many have said that 2003 was the worst year ever for the global tourism industry.

The Conference Board of Canada estimates that SARS, the War in Iraq, Air Canada filing for CCAA protection, Mad Cow, BC wild fires and a massive power outage shaved at

least $2 billion dollars from the Canadian tourism industry. International travel to Canada was hit the hardest mainly due to SARS, affecting Canada's most important travel market to the south. Americans were very much aware of SARS and as a result stayed away in large numbers. Yukon however, fared better than most jurisdictions in Canada.

Overall visitation to Yukon, as measured by international border crossings[3] for 2003, declined from 313,290 to 303,732 from 2002 (or by 3%) U.S. visitors declined by slightly over 5.0%. However during this period, Canadian visitors increased by 1.0%. Total overseas visitors increased by 6.4% in this time period led by Switzerland (17.4%), U.K. (6.9%), Australia (5.9%) and Germany (4.3%).

Winter operators have experienced a growing demand for product, especially dog sledding and aurora viewing, and off-season visitation has grown over the past few years. Between October 2001 to April 2002 Yukon border crossings increased by 1,421, to 35,573 or 4.2% over the same time frame in 2000/01. October 2002 to April 2003 figures show an even greater increase with Yukon border crossings up an additional 7.5% over the previous year to 38,224.

Given the magnitude of global events and the medium to long-term effects they may have on global travel, it is difficult to forecast and impossible to quantify tourism activity for the Yukon in the coming year. However, the current travel indicators for the coming months hold promise for Yukon's tourism industry.

The Conference Board of Canada is forecasting positive growth for nearly all international markets, including the U.S. The Canadian economy is also projected to grow by nearly 3.0%. However, the appreciating value of the Canadian dollar may discourage some U.S. visitors to the Yukon and encourage Canadians to choose a U.S. vacation rather than the Yukon.

International visitation in the summer of 2004 looks promising. Condor Air, which reported an 18% increase in 2003 over 2002, will return to the Yukon twice a week from May through September. A new carrier, Zoom Airlines, will commence scheduled service from London, U.K. and Glasgow, Scotland to six Canadian cities. The carrier will bring visitors from Yukon's second place European origin to Canadian gateway cities. Package bookings for the summer are also up from a number of markets. These include: Holland America's partnership with Parks Canada in Kluane and a 10 - 20% increase from some of the U.K. and German speaking European travel trade. Yukon operators are noticing a number of trends for travel in 2004: increased interest in Yukon product; increased website hits; later than normal bookings; and customized trips.

Based on these indicators, the outlook for Yukon tourism in 2004 is cautiously optimistic.

[3] Not including train arrivals, air arrivals, nor marine arrivals in Dawson City

Government

The public sector has traditionally provided stability for the Yukon economy. In recent years, government spending has prevented a major economic downturn from the slow-down in resource sectors.

Over a third of the Yukon workforce is directly employed by federal, territorial or municipal levels of government. Many more businesses or individuals indirectly depend on government spending for their livelihood. First Nation governments are playing an increasingly important role in the Yukon, but there is currently little data available on their overall number of employees and expenditures.

Total net budgetary spending by the Yukon government is budgetted to increase in 2004/05. Highway projects include the Shakwak corridor highway project and upgrades to the Alaska Highway north of Champagne. A new community hall in Ross River, replacement of the Tantulus school in Carmacks and renovating the Thompson Centre in Whitehorse are the major capital building projects planned by the territorial government in 2004/05. As well, the Yukon government will spend an additional $2.2 million in information technology upgrades in 2004/05.

The Yukon has recently garnered several key federal funding commitments for programs on infrastructure development and economic development. The Canadian Strategic Infrastructure Fund (CSIF) provides a total of $40 million of federal funding. Accessing the federal funding requires a matching contribution by the Yukon government, which could result in $80 million of infrastructure spending over the life of the program. The Yukon government has announced $11.6 million in cost-shared projects under the CSIF for the 2004 construction season. In addition, the Municipal Strategic Infrastructure Fund (MSIF) will provide an additional $16 million in federal money over ten years towards development of municipal infrastructure, cost-shared with territorial and municipal governments.

The federal department of Finance has also committed to providing $90 million in funding for economic development in the north in the recent federal budget. The focus of this funding has not yet been announced.

The City of Whitehorse will be proceeding with construction of phase II of the Multi-plex this year as part of the build-up to the 2007 Canada Games, to be hosted in Whitehorse. Planned expenditures by the City of Whitehorse in 2004 are up 38% to $53.8 million. The $13.9 million in expenditures on the multiplex in 2004 is the key driver of the increase.

The process of land claims settlement continued in 2003 and more progress is expected in 2004. The Kluane First Nation became the ninth self-governing First Nation in February 2004, while the Carcross/Tagish First Nation failed to ratify its agreement in April 2004. The Kwanlin Dun First Nation initialed its agreements in late 2003 and is expected to proceed to ratification in June 2004. The White River First Nation is in the final stages of technical drafting and could proceed with ratification in 2004. The two remaining First Nations without a memorandum of understanding to settle their claims are the Liard First Nation and the Ross River Dena Council. In the interim, they have

signed the Yukon/Kaska Bilateral Agreement, setting out a process which could allow economic activities to occur on lands within the Kaska traditional territory in the southeast Yukon.

Retail and Wholesale Trade

Although the pace of growth declined significantly last year, retail sales are estimated to have grown by around 1.7% to $404.5 million in 2003, representing the twelfth straight year of growth.

Early year retails sales were the strongest of 2003 showing an increase of 4% in the January thru May period compared to the same period in the previous year. Summer (June – August) retail sales, however, exhibited a small decline over figures for 2002 (-0.6%). Late year retail sales, September thru December, rebounded slightly but only showed growth of 1.4%. Preliminary Christmas retail sales figures for the month of December showed a healthy 4.2% increase from Christmas 2002.

Supermarket and grocery store sales, which account for over 20% of total retail sales, showed an increase of about 7% in 2003. The smallest published component of retail sales, other semi-durable goods (book and stationary stores, florists, hardware stores, souvenir stores and similar types of stores) experienced a 7% drop last year. These stores account for less than 4% of total retail sales. Other retail sales, which include categories ranging from automotive sales to clothing sales to alcohol sales and account for almost 75% of total retail sales showed only small (<1%) growth in 2003.

The appreciation in the value of the loonie over the last year may serve as a disincentive for South-east Alaska shoppers to travel to Whitehorse to purchase goods in 2004. However, the continued development of Whitehorse's retail sector leading to a greater availability and variety in the types of goods and services offered should provide an incentive for cross-border shoppers to continue to travel to Whitehorse for their shopping needs.

A strong year for construction in the territory contributed to wholesale sales increasing by 4.8% last year. This follows a decrease of 5.1% in 2002.

Retail sales are expected to increase in 2004 with additional goods being offered by new establishments, continued low interest rates for autos and big-ticket items in the short-term and increased family income. Overall retails sales should increase by an additional 3% in 2004.

Wholesale sales will benefit from both strong construction activity as well as increased mineral exploration activity. Wholesale trade should total 5% higher in 2004.

Key Economic Indicators Summary Table

Indicator	2002	2003	2004 (f)
Population, Prices, Rates †			
Population	30,063	29,967	30,250
Inflation Rate (CPI for Whitehorse)	0.7%	1.9%	1.0%
Prime Rate	4.21	4.69	4.36
U.S./Canada Exchange Rate	0.637	0.714	0.77
Employment †			
Labour Force	14,889	14,508	14,500
Employment	13,467	13,017	13,400
Unemployed	1,417	1,500	1,100
Unemployment Rate	9.5%	10.3%	7.5%
Economic Output			
Real Gross Domestic Product (chained 1997$)	$1,163 million	$1,165 million	$1,210 million
Real GDP Growth Rate	0.2%	0.2%	4%
Commodity Prices †			
Gold	$309.97 US/oz	$363.57 US/oz	$417.39 US/oz
Silver	$4.62 US/oz	$4.91 US/oz	$6.31 US/oz
Lead	$0.205 US/lb	$0.231 US/lb	$0.340 US/lb
Zinc	$0.352 US/lb	$0.373 US/lb	$0.447 US/lb
Copper	$0.706 US/lb	$0.801 US/lb	$1.146 US/lb
Oil (West Texas Intermediate Crude)	$26.09 US/barrel	$31.12 US/barrel	$29.67 US/barrel
Natural Gas (NYMEX)	$3.36 US/MMBtu	$5.49 US/MMBtu	$5.73 US/MMBtu
Lumber (West. SPF 2X4)	$270 US/mbf	$277 US/mbf	$309 US/mbf
Mining			
Value of Mineral Production	$32.5 Million	$25.9 million (e)	$25 -$30 million
Exploration Expenditures	$6.9 million	$13 million (e)	--
Oil and Gas			
Volume of Natural Gas Production	370,000,000 m^3	255,000,000 m^3	--
Tourism			
Border Crossings+	313,290	303,732	--
Government			
YTG Expenditures*	$570 million	$645 million	$706 million
Construction			
Permitted Building Construction	$29.7 million	$50.8 million	$55-$60 million
Retail Trade			
Value of Retail Sales	$398.2 million	$404 million	$415 million

e = estimated, f = forecast,
-- = not available
† annual averages
* 2001 = 2001/2002; 2002 = 2002/2003; 2003 = 2003/2004.
+ Not including train arrivals, air arrivals, marine arrivals in Dawson City.

Data Sources:

Indicator	Source
Population	2002 and 2003: Yukon Bureau of Statistics, Yukon Population Estimates. 2003: Yukon Economic Development forecast.
Inflation (Consumer Price Index)	2002 and 2003: Statistics Canada, Consumer Price Index. 2003: Yukon Economic Development forecast.
Prime Rate	2002 and 2003: Bank of Canada (average of end of the month rates). 2004: Conference Board of Canada forecast.
Canada/U.S. Exchange Rate	2002 and 2003: Bank of Canada (daiiy average noon rate). 2004: Yukon Economic Development survey of forecasters.
Labour Force Indicators	2002 and 2003: Yukon Bureau of Statistics Yukon Employment. (Seasonally-adjusted figures.) 2004: Yukon Economic Development forecast.
Economic Output (GDP)	2002 and 2003: Statistics Canada, Provincial Economic Accounts Cat. No.13-213. 2004: Yukon Economic Development forecast.
Metal Prices	2002 and 2003: TD Canada Trust Economics 2004: TD Canada Trust Economics forecast.
Value of Mineral Production	2002 and 2003: Natural Resources Canada Minerals and Metal Sector ISSN 0709-292X (SS# 00-12) and Yukon Economic Development 2004: Yukon Economic Development forecast.
Exploration and Development	2001 and 2002: Department of Indian Affairs and Northern Development, Exploration and Geological Services Division.
Natural Gas Production Volume	All years: Energy, Mines and Resources, Oil and Gas Branch.
Tourism Visitation	2002 and 2003: Yukon Bureau of Statistics and Yukon Tourism
YTG Expenditures	All years: Yukon Finance.
Permitted Building Construction	2002 and 2003: Yukon Bureau of Statistics. 2004: Yukon Economic Development
Retail Trade	2002 and 2003: Statistics Canada, Retail Trade, Cat. No. 63-005. 2004: Yukon Economic Development forecast.

Internet Web Sites of Reference

Yukon Economic Development	http://www.economicdevelopment.gov.yk.ca
Yukon Bureau of Statistics:	http://www.gov.yk.ca/depts/eco/stats/index.html
Yukon Economic Research Unit	http://economics.gov.yk.ca
Yukon Energy Mines & Resources	http://www.emr.gov.yk.ca/
Yukon Finance	http://www.gov.yk.ca/depts/finance/
Statistics Canada:	http://www.statcan.ca/
Natural Resources Canada	http://www.nrcan.gc.ca/